

# OUTLOOK

A Publication of the South Dakota Retirement System

Number 2 • August 2001

## System History

### SDRS Chalks Up Stunning Record of Benefit Improvements Since '74

For SDRS the transition from a fledgling plan with less than \$200 million in assets to a mature \$5 billion system has occurred at break-neck speed. So it's not surprising that the size and scope of the benefit improvements made along the way has been blurred if not forgotten.

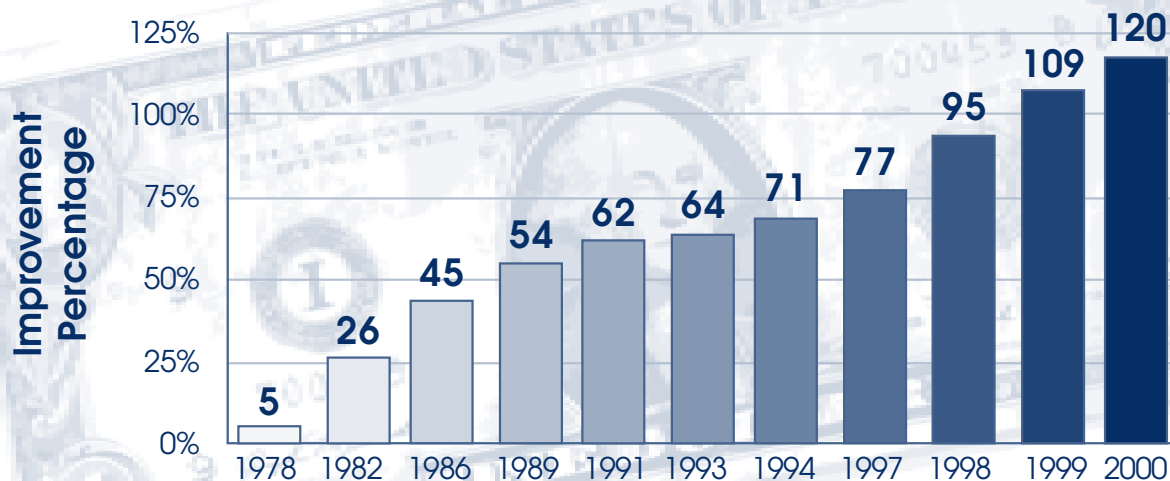
For example, few remember that before SDRS was created in 1974, there was a patchwork of eight competing public retirement systems in the state, all having

their own eligibility requirements, benefit levels and degrees of financial stability. Or that since 1974, the value of SDRS benefits has increased 120 percent.

This issue of *Outlook* is intended to describe and highlight the evolution of SDRS's benefits that has occurred over the last 27 years. The chart below illustrates the dramatic increase in the overall combined value of SDRS's benefits, while those on pages two, three and four show:

- The 63 percent increase in the Class A Standard Benefit Formula—Chart #1
- The history of improvements in SDRS's early retirement provisions—Chart #2
- The 55 percent increase in annual cost of living adjustments—Chart #3
- The history of benefit improvements for retired members—Chart #4
- The history of the implementation of member issues—Chart #5 **OUTLOOK**

### Value of All SDRS Benefits Increases 120%



The South Dakota Retirement System fully subscribes to the provisions of the Americans with Disabilities Act of 1990.

## Benefits

# SDRS Benefit Improvements Targeted to Five Major Areas

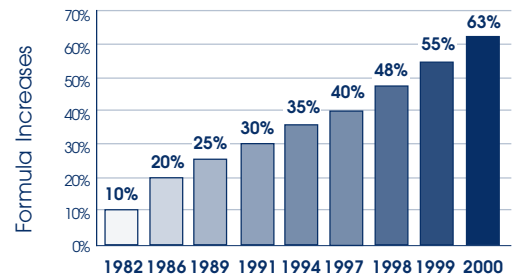
## 1 Benefit Formula

### A History of Improvements

Benefit Category	Status In 1974	Benefit Improvements
<b>Benefit Formula</b> <ul style="list-style-type: none"> <li>Class A Standard</li> </ul>	1.0%	1982—1.1%; 1986—1.2%; 1989—1.25% 1991—1.30% 1994—1.30% / 1.40% (for applicable years) 1997—1.40% prior to 1997/1.30% thereafter 1998—1.475% prior to 1998/1.30% thereafter 1999—1.55% prior to 2000/1.30% thereafter 2000—1.625% prior to 2002/1.30% thereafter
<ul style="list-style-type: none"> <li>Class A Alternate</li> </ul>	2.0%	1999—2.25% prior to 2000/2.0% thereafter 2000—2.325% prior to 2002/2.0% thereafter
<ul style="list-style-type: none"> <li>Class B Public Safety</li> </ul>	2.0%	1994—2.0% / 2.10% (for applicable years) 1997—2.10% prior to 1997/2.0% thereafter 1998—2.175% prior to 1998/2.0% thereafter 1999—2.25% prior to 2000/2.0% thereafter 2000—2.325% prior to 2002/2.0% thereafter
<ul style="list-style-type: none"> <li>Class B Judicial</li> </ul>	3.333% / 2.0%	1994—3.333% / 3.433% (for applicable years) 2.0% / 2.10% (for applicable years) 1997—3.433% prior to 1997/3.333% thereafter 2.10% prior to 1997/2.0% thereafter 1998—3.508% prior to 1998/3.333% thereafter 2.175% prior to 1998/2.0% thereafter 1999—3.583% prior to 2000/3.333% thereafter 2.25% prior to 2000/2.0% thereafter 2000—3.658% prior to 2002/3.333% thereafter 2.325% prior to 2002/2.0% thereafter

Since Outlook charts are for illustrative purposes, the numerical data may be rounded.

**Class A Standard Benefit Formula Multiplier Improves 63%\***



\*For credited service prior to July 2002

## 2 Early Retirement

### A History of Improvements

Benefit Category	Status In 1974	Benefit Improvements
<b>Early Retirement</b> <ul style="list-style-type: none"> <li>Class A</li> </ul>	Early Retirement: Age 55 with 6% per Year Reduction  1991—Rule of 85 (Age 58)	1978—Reduction Decreased to 3% per Year 1986—Rule of 85 (Age 60) 1989—Removed "at work" Limitation  1993—Rule of 85 (Age 55)
<ul style="list-style-type: none"> <li>Class B Public Safety</li> </ul>	Early Retirement: Age 45 with 6% per Year Reduction	1978—Reduction Decreased to 3% per Year 1982—Early Retirement Age for New Members: Age 50 1989—Early Retirement: Age 45 for All Class B Public Safety Members 1991—Age 50/25 Years of Service 1998—Rule of 75 (Age 45)
<ul style="list-style-type: none"> <li>Class B Judicial</li> </ul>	Early Retirement: Age 55 with 6% per Year Reduction	1978—Reduction Decreased to 3% per Year 1990—Rule of 80 (Age 55)



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## Cost of Living Adjustment (COLA)

### A History of Improvements

Benefit Category	Status In 1974	Benefit Improvements
Improvement Factor	2% Simple	1978—2.0% Compound (Indexed) 1982—3.0% Compound (Indexed) 1988—3.0% Compound 1993—3.1% Compound 1998—3.1% Compound and prorated for partial years

**SDRS COLA Improves 55%\***

Year	Annual Cost of Living Adjustment
1974	2.0
1982	3.0
1993	3.1

\*Does not include the additional value of compounding

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## Retiree Benefits

### A History of Improvements

Benefit Category	Status In 1974	Benefit Improvements
Class A Retiree Benefit Formula	Variable before consolidation	Standard Formula 1974—Benefits increased 10% 1982—1.0% 1987—1.05% 1988—1.1% 1989—1.25% 1991—1.30% 1994—1.30%/1.40% (for applicable years) 1997—1.40% prior to 1997/1.30% thereafter 1998—1.475% prior to 1998/1.30% thereafter 1999—1.55% prior to 2000/1.30% thereafter 2000—1.625% prior to 2002/1.30% thereafter

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## Member Issues

### *A History of Improvements*

Benefit Category	Status In 1974	Benefit Improvements
<b>Resolution of Member Issues</b> <ul style="list-style-type: none"> <li>• Uncredited Service</li> </ul>	Buy at Cost	1989—Buy at 75% of Cost
<ul style="list-style-type: none"> <li>• Short-Service Employees               <ul style="list-style-type: none"> <li>- Deferred Benefits</li> <li>- Refunds</li> </ul> </li> </ul>	Frozen  Employee Contributions Plus 5%	1986—Indexed  1986—Interest Indexed to the T-Bill Rate; 5% Minimum, 10% Maximum Guaranteed Refund of All Employer/Employee Contributions after Retirement  1995—Portable Retirement Option (PRO) Refund of All or a Percentage of Employer Contributions Based on Years of Service for PRO Members  1998—PRO for all members
<ul style="list-style-type: none"> <li>• Spouse Benefit</li> </ul>	50% of Retirement Allowance	1999—60% of Retirement Allowance



## Board of Trustees

# SDRS Trustees Begin New Terms

Three incumbents have won races for seats on the SDRS Board of Trustees. James Hansen, Retiree representative; Brian Berglin, Teacher representative and David Merrill, State Em-

ployee representative were re-elected and will begin new four-year terms in July. Trustee Kathy "K.J." McDonald was unopposed and will continue to serve as the County Employees representative.



James O.  
Hansen



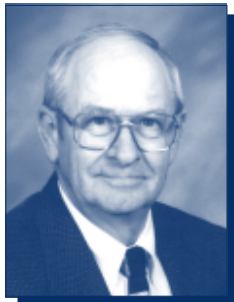
Brian  
Berglin



David  
Merrill



Kathy "K.J."  
McDonald



Royce  
Hueners



Wesley  
Tschetter

The Board of Trustees appointed Royce Hueners and Wesley Tschetter to fill two vacant seats. Mr. Hueners, Mayor of Madison, joins the board as the Elected Municipal Official representative, and Mr. Tschetter, a former board member (1974 to 1985), returns to serve as the School Board representative.

The appointees will serve until next year, when the positions will be opened for election. **OUTLOOK**

## OUTLOOK Interview

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for the increase in the base benefit will always be available regardless of investment performance.

**Outlook:** That's a major improvement.

**Merrill:** It's that and then some. The increase in contributions is the single most important event that's taken place in SDRS since consolidation occurred in 1974. And considering how far we've come, that's saying a lot.

**Outlook:** So what's made all this possible?

**Merrill:** Without a doubt, the major factor was the long stretch in the '80s and '90s during which SDRS earned unbelievable returns on its investments. It's not, however, the only factor. Unlike many other retirement plans in this country, SDRS has been unified in its purpose. There's been an exceptional sense of cohesion that's included members, legislators, governors, board members and the organizations that support SDRS. We've been a unified house, speaking with one voice. Of all our assets, that's probably the one with the greatest value, and the one we'll need most urgently in the years ahead. **OUTLOOK**



## Board Notes

The following is a summary of major issues that came before the SDRS Board of Trustees at its June 20, 2001, meeting.

### June 20, 2001

**Election Results**—The board approved the results of the elections to the SDRS Board and appointed two members to fill vacant seats.

**FY 2003 Budget Request**—The board adopted the proposed SDRS and SRP budgets for FY 2003.

**Presentations**—A number of presentations were made to the board including a review of investment performance to date,

the status of the Reserve for Funding of Long Term Benefit Goals, general issues regarding the system, SDSEO resolutions, the Class A Alternate Formula, retire and rehire and SDRS's Long Term Goals.

### Trustee Attendance at Board Meeting

**Present:** Brian Berglin, Elmer Brinkman, Carol Burch, Tracy Dahl-Webb, James Hansen, Louise Loban, David Merrill, Stephen Myers, Pamela Roberts, Lowell Slyter, Dan Viedt, Donald Zeller, Sandra Zinter, Judge Steven Zinter.

**Absent:** Kathy "K.J." McDonald, Robert Overturf

Dave Merrill has represented state employees on the SDRS Board since 1985.



**“The increase in contributions is the single most important event that’s taken place in SDRS since consolidation occurred in 1974.”**

## OUTLOOK Interview

David Merrill

*Dave Merrill discusses the improvements made in SDRS benefits during the last 20 years.*

**Outlook:** In your judgement, do SDRS members really have a significantly better plan than they did 20 years ago?

**Merrill:** Let’s look at some specific examples starting with the Class A standard retirement benefit. Assume you retired in 1980 and were receiving \$400 a month from SDRS. Since then, increases in the benefit formula combined with the SDRS COLA [cost of living adjustment] would have increased your benefit by over 6 percent per year. That means that over a 20-year period your check from SDRS would have increased to about \$1,350 a month. That’s more than three times the original benefit—a remarkable improvement by any standard.

**Outlook:** In approximate dollars, what did the increases in the benefit formula add to the value of member benefits?

**Merrill:** Since 1980, increasing the standard benefit formula multiplier alone has meant that SDRS mem-

bers as a group will receive an additional \$1 billion in payments from the system. Although that’s the largest source of additional dollars for members, it doesn’t include things such as increases in the COLA or improvements in early retirement benefits.

**Outlook:** So all together, how much more money will members be receiving because of improvements in benefits?

**Merrill:** Combined, members will be receiving about \$2 billion more from SDRS than they would have if the benefits in 1974 had never been improved.

**Outlook:** Those are big numbers.

**Merrill:** Very big numbers. Members are often amazed when they see the statement SDRS sends them explaining the value of their benefits. They can’t believe that their SDRS benefits are worth \$400,000 or \$500,000.

**Outlook:** But that’s over the course of a lifetime.

**Merrill:** Sure. But that’s how we’re

going to need the money, over the course of a lifetime. Whether you have a guaranteed nest egg of \$500,000 in earned SDRS benefits or a \$500,000 nest egg in stocks, you’re still going to use it one year at a time.

**Outlook:** What about the future. Since exceptional investment earnings are the key to improving SDRS benefits, does the recent slump in the stock market mean improvements will slow?

**Merrill:** You’re right when you say the performance of stocks and bonds are the key to improvements in SDRS benefits. If the markets stay flat, improvements will slow or even stop. But thanks to the Legislature’s Retirement Laws Committee and the executive branch, SDRS will still have the dollars to increase the Class A base benefit formula over 19 percent for all service earned after July 1, 2002. That’s possible because the 2000 Legislature and the Governor took the initiative to increase the contributions to SDRS, the first contribution rate increase in SDRS history. So the dollars to pay

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